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Washington, D.C. 20505

15 May 1985

Dear Tom,

This will interest you if you haven't seen
it already.

Yours,

William J. Casey

Enclosure

Mr. Thomas S. Murphy
Chairman of the Board
Capital Cities Communications, Inc.
24 East 51st Street
New York, New York 10022

Washington, D.C. 20505

15 May 1985

Dear Walter,

Sorry I had to miss the party Charlie and
Mary Jane gave for you.

The enclosed editorial of the LOS ANGELES TIMES
is interesting if you haven't already seen it.

With warm regards.

Yours,

William J. Casey

Enclosure

The Honorable Walter Annenberg
"Sunnylands"
Post Office Box 730
Palm Desert, California 92260

8 May 1985

ARTICLE APPEARED
ON PAGE 4, P. 11

Government as Truth Fairy

Every journalist from time to time faces a dilemma: what to do with a story that has a certain amount of information on one side and contradictory information on another side. A balanced story ("on the one hand . . . on the other hand") is unlikely to be very interesting, and, worse, it may not be an accurate representation of reality. The truth may not lie in the middle. It may lie on one side. In that case, giving equal weight to both sides is a distortion. But failing to give equal weight to both sides may also be unfair. As lawyers and journalists know well, many cases are open and shut until you've heard the other side.

This perennial hazard of reporting comes up now because of the troubling case of ABC News, the Central Intelligence Agency, the Federal Communications Commission and Ronald R. Rewald, a former Hawaii businessman who faces federal charges of fraud, tax evasion and perjury involving an alleged investment scandal. Last fall ABC broadcast a two-part series asserting that Rewald had been a CIA agent during his financial escapades and that the agency had plotted to murder him to keep his story from getting out.

As detailed by Times staff writer David Crook in last Sunday's Calendar section, the basis for the ABC story was flimsy at best. It was not adequately checked, and it lacked independent confirmation. The network subsequently retracted the charge about the plot to kill Rewald, but it stands by the rest of the story.

This would be a matter between ABC and its viewers were it not for the CIA's decision to get

the Federal Communications Commission involved. Agencies of the federal government may not sue for libel, so the CIA took another tack. It brought a complaint to the FCC under the fairness doctrine, which requires that broadcasters present all sides of a controversial issue. Earlier this year the commission's staff ruled that a challenge by a government agency under the fairness doctrine is permissible—a decision that has far-reaching implications for the holders of all broadcast licenses in the United States.

ABC appears to have aired a story that was wrong. It was not alone. British Broadcasting Corp., the Wall Street Journal and CBS News, to a greater or lesser extent, had earlier published or broadcast accounts of Rewald and the CIA connection, though none went as far as ABC did. ABC got out the hypodermic needle and pumped this story up—not the first time in the history of journalism (nor, alas, probably not the last) that reporters refused to let facts get in the way of a good yarn.

But under no circumstances should the government be involved in investigating the accuracy of a broadcast. Down that road lies government-imposed Truth, which is much more dangerous than a story that is wrong. However, the CIA, like everyone else, is entitled to fair, accurate and responsible journalism, and there is a way to set things right.

ABC would be doing itself, its viewers, all broadcasters and all journalists a service by conducting its own investigation of what went wrong in the Rewald story and making the results public.

ARTICLE APPEARED
ON PAGE 4, CalendarLOS ANGELES TIMES
5 May 1985

ADVENTURES IN PARADISE

How ABC Enraged the CIA—and Why the CIA Fought Back

By DAVID CROOK

HONOLULU—When "World News Tonight" anchorman Peter Jennings introduced a two-part story last September about a Hawaii businessman and the Central Intelligence Agency, ABC News unwittingly set off a string of events that produced a new ruling about how government regulates radio and television.

The administrative ruling, arrived at in January by the staff of the Federal Communications Commission, holds that a federal agency may legally challenge the fairness of television news broadcasts—which, by extension, threatens a broadcaster's license.

The full five-member FCC is now reviewing the staff decision. But the issue might never have surfaced had ABC News not broadcast the story of a \$22-million Hawaii financial scandal as a tale of international intrigue, espionage and murder linked to the CIA.

Until ABC's broadcasts, few persons outside the islands had ever even heard of Ronald Ray Rewald or his alleged swindle. Few who saw Rewald's story on ABC Sept. 19 and 20, 1984, probably recall much of it, but now he has become a secondary character in an unprecedented confrontation between government and media.

Rewald, 42, faces 100 federal criminal charges of fraud, tax-evasion and perjury associated with the August, 1983, collapse of his investment firm—Bishop, Baldwin, Rewald, Dillingham & Wong. Prosecutors charge that he duped nearly 400 persons in his alleged swindle. However, Rewald in his defense, claims that he was a covert CIA agent and that his firm was set up and controlled by the CIA.

In the disputed broadcasts, ABC appeared to substantiate most of Rewald's claims. In addition, the network broadcast charges that the CIA plotted to murder Rewald and threatened the life of an investor in his firm.

The CIA reacted loudly and angrily to the ABC broadcasts. With its FCC filing, the CIA became the first federal agency to openly try to put a TV broadcaster out of business.

"We wanted to see if we could redress the deficiency which led to their doing such an outrageous piece of work," said William J. Casey, director of central intelligence, in a rare tape-recorded interview at his Langley, Va., office.

Casey insisted that he has no serious desire to see ABC's licenses revoked, and a later CIA filing backed down from the initial request. Casey wants ABC to conduct an internal investigation of the broadcasts and make public the results—as CBS News did in the early stages of its dispute with retired Gen. William C. Westmoreland over enemy troop estimates in the Vietnam War.

"We sought a procedure which could point up and perhaps lead to a correction of the deficiencies which led to giving the whole American public this false information about the CIA," Casey continued. "We hope in some orderly way by our FCC complaint this could lead to standards which would better in the long run permanently protect the network, the public and the CIA against recurrences of this rush to publish without decent proof or adequate checking."

Despite Casey's willingness to settle for

less than ABC's corporate head on a platter, his FCC complaint may have opened the door for similar constitutional assaults on broadcasters.

New York libel attorney Robert Sack summed up the issue at the heart of the CIA-ABC case: "One department of government is trying to get another department of government to punish someone for publishing something they didn't like. It's so obviously loaded with First Amendment implications as to boggle the mind."

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Few constitutional experts believe that the FCC will exercise its ultimate police power over ABC or hold up the recently announced \$3.5-billion ABC-Capital Cities Communications Inc. merger. But the case raises serious questions about the practice of TV investigative journalism in general and ABC's conduct in the Rewald affair in particular.

After the CIA's first public response to the broadcasts, senior ABC News executives held an in-house, two-day examination of the Rewald reports. ABC concluded that, except for one murder charge, the story was accurate and properly substantiated.

Said David W. Burke, ABC News executive vice president and assistant to ABC News President Rooney Arledge: "We walked away feeling that we had a good story here, given the limitations that surrounded this story from day one—the nature of the agency's response to ordinary inquiry and the fact that so many things that were being referred to in the story at that time, and I guess even today, were under the cover of the court in Hawaii."

A Los Angeles Times inquiry into the disputed broadcasts, however, found little to substantiate the network's charges against the CIA and raised questions about ABC's sources and news-gathering practices in the Rewald story. The Times confirmed that public records—including Bishop, Baldwin bankruptcy proceedings, financial records and court documents in more than a dozen civil and criminal cases, published books and other materials—show no independent evidence of major CIA involvement with Rewald.

Although evidence sustaining Rewald's and ABC's claims may yet surface in his pending federal trial, The Times found that:

□ Five of ABC's seven on-air interviews were with individuals who are plaintiffs or attorneys with lawsuits against the CIA. ABC admitted on the air that the sixth person's story could not be substantiated. And the network's seventh interview subject says the network misrepresented his position.

□ On air, ABC offered no independent substantiation for its charges. Subsequent to the broadcasts, the network defended its investigative reporting on the grounds that the CIA does not adequately answer reporters' questions. The CIA argued, however, that its position was represented in the public records of the case.

□ Those records, which include Bishop, Baldwin financial accountings that ABC did not acquire until last month, establish two links between the CIA and Rewald: the use

Continued

of Rewald's firm to provide cover for a handful of intelligence officers and personal investments in Bishop, Baldwin by CIA officers.

Hawaii-based journalists and legal figures connected with the Rewald story claim that ABC failed to verify Rewald's charges.

Among them is Richard Borreca, a reporter with KHON-TV in Honolulu. Borreca said that the Rewald story reported by ABC and other top news media bore little relation to the one he and another reporter broke and have covered for nearly two years.

"I've wanted to do a piece on 'When the Big Boys Come Into Town and What They Leave With,'" Borreca said in an interview. "I think there's a great amount of pressure on them to come back from Hawaii with a story. I think that's what happened here. The CIA doesn't appear to be that tremendously involved with it. You have a couple of guys who would like it to be involved, but that doesn't make it so."

Thomas E. Hayes, Bishop, Baldwin's court-appointed bankruptcy administrator, has reconstructed the firm's finances; he claims to have accounted for all but about \$600 of the \$22 million known to have passed through the company and has no evidence of significant CIA involvement.

"I was shocked when I saw ABC News," Hayes said in an interview. "It scared the hell out of me because there's a story I know the background of. The average citizen looks at the national news and there's an imprimatur of credibility. . . . They sound almost like God—like everything they say is the absolute truth. When you see this kind of pure garbage that came out in that (ABC) report, it scares the living hell out of you. It did to me."

Although only ABC has been taken to task by the CIA, the network is not out on the limb alone. Individuals close to the Rewald case say that the British Broadcasting Corp. and the Wall Street Journal also misreported the story. They say that CBS News' version of the story was flawed, although to a much lesser extent.

All of those news organizations worked from much the same source material but arrived at different conclusions. Like ABC, the BBC presented Rewald's claims of CIA involvement as fully substantiated but did not broadcast the alleged CIA murder plots. The Wall Street Journal portrayed Rewald

as a renegade CIA agent who used his association with the agency to his own personal ends. CBS reached no conclusions at all on the story but relied on the same questionable sources as ABC and the BBC.

ABC alone left its viewers with the impression that the CIA planned to kill two American citizens.

"That's just utterly insane," said Stansfield Turner, director of central intelligence during the Carter Administration. "I can't imagine why ABC believed that. . . . I think the agency had great cause to be very upset with ABC."

So did Thomas Hayes, the Bishop, Baldwin bankruptcy administrator who had been local reporters' principal source on the Rewald story. As court-appointed administrator of the bankrupt firm, Hayes and the trustee by whom he is employed are entitled to a pre-tax percentage of any recovered company assets.

Of ABC's on-air interview subjects, Hayes has the strongest, most immediate financial interest in proving that Rewald's firm was a major CIA operation. Hayes has not proved it

to date, but he has reserved his option to sue the CIA if he can establish that it had any liability for the company's bankruptcy.

"The involvement that I've proven so far is still minimal, although somewhat more than the CIA publicly admits," Hayes said.

In the disputed reports, however, ABC correspondent Gary Shepard and producer Charles Stuart used Hayes' on-air comments as confirmation that Bishop, Baldwin fronted worldwide clandestine and illegal CIA operations.

Shepard: *The man appointed by the court as the firm's bankruptcy trustee confirms the CIA connection.*

Hayes: *Clearly this was a commercial cover operation for the Central Intelligence Agency. One or more agents used it for that purpose. But that doesn't justify stealing \$22 million of someone's money.*

Shepard: *But Rewald denies that the money is missing at all. He says it's in several different banks under other names. And as far as slight CIA involvement is concerned, ABC News has learned that the agency was heavily entrenched in Bishop, Baldwin, running a number of foreign and domestic intelligence operations, one of which violated an interna-*

tional agreement, others in direct violation of U.S. law.

"That's all wrong—100% wrong," said CIA General Counsel Stanley Sporkin in an interview. Sporkin filed the CIA's fairness-doctrine complaint against ABC, even though he knew that the network would relent on one uncorroborated murder charge.

In its Sept. 20 broadcast, ABC aired a claim by former Oahu County Correctional Center guard Scott T. Barnes that the CIA ordered him to spy on Rewald in jail and, later, to kill him.

Barnes claims that he met with high-ranking agency officials at the Royal Hawaiian Hotel on Waikiki. On the air, Barnes said that he was told at that meeting: "We gotta take him out. . . . You know, kill him."

No other accusation in ABC's broadcasts so infuriated the CIA.

Director Casey insisted that the agency is not in the business of killing Americans. Despite the CIA's alleged record of involvement in political assassinations and attempts—including at least five foreign leaders noted in the 1975 report of the Senate Select Committee on Intelligence (Church Committee)—Casey argued that the distinctions between political assassinations and Barnes' charge are "clear and obvious."

"Whatever happened in the '60s, whatever happened to the extent it did happen, was an act of state authorized at the very top," Casey said. "Here, you (ABC) have us (the CIA) trying to put somebody in jail to kill a guy. Since that time (the '60s), there's been a specific (executive) ruling against that—a specific prohibition that did not exist in the earlier period. I don't think you can compare whatever was directed or authorized (then) and a prisoner in a jail in Hawaii."

(Director Casey's statement—that alleged CIA assassinations were authorized at the highest level of government—is unusual and startling. The Church Committee was unable to conclude that any Administration ever authorized killing foreign leaders.)

ABC backed away from Barnes' story on Nov. 21, 1984, admitting on the air that his story could not be substantiated. That day, the CIA filed its fairness-doctrine complaint against the network with the FCC.

(The FCC's fairness doctrine requires broadcasters to present opposing views on controversial issues of public importance.)

ABC offered the CIA appearances on either of its critically acclaimed late-night news programs—"Nightline" or "Viewpoint"—which the network was willing to devote to the Rewald case. But the CIA did not believe ABC's offers were firm. Besides, in the CIA's view, the issues raised by ABC were not matters of differing opinions or points of view. Rather, they were issues of fact, Casey said, and in that case "the burden of proof is on the affirmative."

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ABC defends its reporting with the basic rule of libel law that the press may level charges against public figures or agencies that otherwise would not be made against private individuals. The U.S. Supreme Court has upheld this concept as necessary to preserve the right of the press to engage in free and robust criticism of government.

More stringent than the Court's guidelines, however, are the standards of many professional journalists.

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Columbia University journalism professor Melvin Mencher, author of a widely circulated basic and intermediary reporting textbook, said that responsible journalism requires proper verification of charges, no matter who is the accuser or who is the target. It is not enough to balance an unverified charge with a denial, he said.

"Just because your target is a public figure or agency, I don't think you're any less responsible to adhering to the canons of fairness and the requirements of truth-telling," Mencher said.

Clearly, ABC before its broadcasts sought some statements from the CIA. The CIA answered with "no comments," flat denials and suggestions that ABC examine the public records in the case.

The network insists that the CIA's uncooperative attitude allowed it to air unverified and uncorroborated charges. Senior ABC News executives defend the disputed broadcasts on the grounds that the CIA does not issue information through a "workable" public-relations office or through a long-term series of source-reporter contacts.

Said ABC's Burke: "If it was the Department of Defense or the Department of State, I think things would have been altogether different. These are agencies of government that have a long history of establishing what is necessary in a free society—a workable press relations department, an office that deals with an inquisitive press. . . .

"The CIA may have a press office, but there's nothing there."

However, neither of ABC's two Washington-based reporters who regularly cover the CIA, and who presumably have the closest ties to the agency, were consulted on the Rewald story prior to its broadcast.

According to CIA press office records, reporter Shepard never asked questions on most of the specific charges that he and Rewald were making against the agency. The CIA claims that it was unaware of the magnitude of ABC's story before it aired or the seriousness of the charges the network planned to make.

"What are you supposed to do with this agency?" said a visibly irritated Burke. "Are you supposed to go to them and say, 'This is our story'? You ask them a question and they say 'no comment,' and you are then obliged to lay out the entire story so that they judge whether or not to talk to you on the basis of the magnitude? Is that what a reporter's supposed to do?"

According to the CIA, Shepard made two telephone calls to CIA headquarters, one in July and another one week before the broadcasts. The CIA records, which the agency acknowledges may be incomplete, do

logue of alleged CIA operations that ABC claimed to have verified in the second disputed broadcast.

Shepard: ABC News has learned that Rewald's company provided the cover for some of the CIA's most sensitive and embarrassing operations. Not only was Bishop, Baldwin involved in selling arms to Taiwan, India and Syria and promoting financial panic in Hong Kong, it was also fueling capital flight from two allies, Greece and the Philippines, countries with destabilized economies, in exchange for intelligence information. And, according to Ron Rewald, the agency was conducting illegal domestic operations, spying on foreign students on college campuses and planting domestic propaganda.

Among those charges, the most serious is the Taiwan arms deal, which ABC claimed violated a U.S. agreement with mainland China. The network confirmed that the "back-door" deal occurred with copies of cables among Rewald and his associates. According to those cables, the deal included laser sighting devices for M-16 rifles, armored personnel carriers and M-60 tanks.

Nowhere in the cables is there any evidence that the arms were ever ordered or shipped. There is, however, independent evidence that, prior to the ABC broadcasts, the United States publicly sold some of those weapons to Taiwan.

One month before the ABC reports, Congress approved the sale of M-60 tank chassies to the Taiwan government, according to the records of Defense Marketing Services Inc., a Greenwich, Conn.-based firm that tracks international arms trades.

"There's no reason to go covert on something like that," said Leland S. Ness, armored vehicles specialist for the firm. "I can't see why Taiwan would buy M-60s under the table when we have openly sold them these vehicles as recently as last summer."

In December, 1982, Congress approved the sale of nearly \$100 million worth of armored personnel carriers to Taiwan. On July 15, 1983—two weeks before the fall of Bishop, Baldwin—the White House announced a \$530-million Taiwan arms deal that included additional armored personnel carriers and kits for upgrading older M-48 tanks.

In an interview, William Lord, executive producer of ABC's "World News Tonight" said, "All I know is that the information that our producer and correspondent had was very solid on what was going on there. I personally did not go to the Library of Congress and sit down and work on that."

1984-85 edition of Britain's authoritative Jane's Armour and Artillery, the standard reference on world military armaments, lists no M-60 tanks added to the Taiwan arsenal in 1983 and notes that Taiwan is developing its own medium battle tank to compete with the American-made M-60. According to one of the Bishop, Baldwin cables, the Taiwan deal included 250,000 laser sighting devices for M-16 rifles, but, according to the 1984-85 edition of Jane's Infantry Weapons, the country has only about 5,000 M-16 rifles. Furthermore, the laser devices cited in the cable have no battlefield capability. They are training devices used to teach new recruits how to shoot an M-16.

Of ABC's specific charges, the CIA acknowledges only that an agency official recruited Rewald's son to "spot and assess" foreign students on the Hawaii campus of Brigham Young University. CIA officials claim that the collecting of information on foreigners within the United States doesn't violate the agency's charter barring domestic activities.

The CIA vehemently denies the rest of ABC's and Rewald's allegations, especially the alleged agency death threat to Bishop, Baldwin investor Theodore Frigard. A former California chiropractor, Frigard lost about \$250,000 when the firm collapsed. He has filed a \$3-million lawsuit against the CIA in an effort to regain his lost life savings.

Shepard: He (Frigard) says the government offered him a payoff if he'd drop his lawsuit against the agency.

Frigard: Their offer was that they would pay me \$350,000 in triple-A, unregistered, municipal bonds. And then as we got up to leave, the man said, "You know, if you become too big of a pain in the arse," he said, "they will shoot you through the heart. They will report it as a heart attack. Your body will be cremated by mistake and all that will be left will be the coroner's report that you had a heart attack."

Shepard: Frigard says the CIA never came through with the money, and he's still suing.

In a February interview with The Times, Frigard said his suit was still pending. He also said that he made the \$350,000 offer to the CIA and that the death threat was only a warning from a government-employed friend. Frigard refuses to identify his friend, but claims that he is a high-ranking intelligence community official.

"I never thought he was with the CIA," Frigard said.

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"This would have been the biggest story ever found against the agency—a plot to murder an American citizen," the CIA's Sporkin said. "How does it happen that they can put on artificial news?"

The answer says much about reporting of the Rewald affair. It also shows how national journalists, who often have only a short while to report a story in a strange city, can be caught in a quagmire of claims and counterclaims.

Interest in Ronald Rewald's tale effectively began on July 29, 1983, when KHON reporters Borreca and Barbara Tanabe first reported on Bishop, Baldwin. Rewald responded to their first broadcast by checking into a Honolulu hotel and slicing his wrists.

Rewald's claims that the CIA controlled Bishop, Baldwin surfaced almost immediately in news reports and in federal and state inquiries. Hawaii viewers watched most local reporters and investigators examine the claims and debunk many of them.

"The first time that I talked to Ron Rewald, I had the impression that I had walked through a mirror," said Honolulu Advertiser reporter Walter Wright, who also has contributed to Washington Post reports of the story.

"It was just like being in Wonderland—everything's just all flipped around," Wright said in an interview. "He's extremely persuasive, extremely convincing, ingenuous, but what Rewald and the people who were associated with him were saying—that the CIA created and planned this thing and that the CIA had complete control of it—is about 170 degrees out from what we were getting from other sources of information."

Almost alone among Hawaii reporters, ABC affiliate KITV's Larry Price ignored the financial scandal and pursued the CIA angle.

A former football coach and popular local radio personality, Price emerged in October, 1983, with a five-part series dramatically entitled "Shadow House."

More succinctly than any subsequent TV version of the story, Price's reports detailed the relationship between Rewald and the CIA, including the use of three Bishop, Baldwin subsidiaries as so-called "shadow houses"—seemingly legitimate businesses providing commercial cover for CIA agents.

In agency parlance, such companies are called "proprietarys" providing covert agents with "non-official," or commercial, cover. Working under such cover, CIA intelligence officers presented themselves to foreign contacts as international businessmen employed by Bishop, Baldwin subsidiaries.

According to individuals who have seen the CIA's sealed affidavit in Rewald's criminal case and another associated case in

Virginia, the CIA acknowledges that the Bishop, Baldwin subsidiaries provided cover for seven intelligence officers.

Rewald—with whom the agency acknowledges having had a signed secrecy agreement at one time—provided so-called "backstopping" for the intelligence officers (taking phone messages, collecting mail and the like). He also apparently volunteered to the CIA information that he acquired on his frequent overseas business trips.

The sealed evidence in the case reveals names and covers of CIA agents who invested personal funds in Bishop, Baldwin, said U.S. District Judge Martin Pence in an interview. Pence, who oversaw the bankruptcy proceedings, said that evidence gathered from the firm's business files shows that through Rewald's contacts with CIA employees he managed to collect sensitive information about CIA agents in the field, as well as secret CIA sources and methods of intelligence gathering.

Among the investors, explained Pence, "were individuals who were not known as being CIA members. There may have been those, I don't know where in the world, who came and fed through their buddy-buddy (system). If you go back and locate who they were and what they were doing then it goes to 'sources and methods.' It might cause embarrassment or exposure of some of those individuals who are using different names in different places."

The judge said that the sealed evidence does not support Rewald's claims of extensive personal involvement with the CIA.

"This is little pipsqueak stuff," said Pence, first appointed to the federal bench by President Harry S. Truman. "To me, it's pipsqueak in so far as the use by the CIA of a company as a (mail)drop. That doesn't necessarily involve the financial aspects of the company in the slightest."

According to bankruptcy administrator Hayes, who has reviewed most of the sealed materials in the case, Rewald managed to mushroom his minor CIA ties into an association appearing much deeper. The CIA, Hayes said, has contributed to the misreporting of its involvement by sealing evidence that has little to do with national security.

The CIA insists that neither Rewald nor the officers who were provided cover by Bishop, Baldwin conducted the extensive clandestine operations that Rewald claims and that KITV's Price, ABC and the BBC reported.

Few other Hawaii reporters went along with Price's version of the story. In following the dollars that passed through Bishop, Baldwin, most of the Hawaii press found that

financial records did not substantiate the CIA connections that Price, the BBC, ABC and, to a lesser extent, the Wall Street Journal claimed were there.

ABC executives insist that the financial aspects of the Rewald story have no relevance to their reporting on the espionage angle of the case. Other than Rewald's and his associates' assertions that he received massive amounts of CIA money, no independent physical evidence has surfaced showing any unexplained funds that could have provided Rewald with the money necessary to carry out his alleged CIA assignments.

"The CIA didn't put any money in, and they didn't take any money out," bankruptcy administrator Hayes said. "What did they do here? They used it for commercial cover, to the extent they used it. What story can there be beyond that that can be documented?"

That documentation sat on Hayes' desk for anyone with an interest in Bishop, Baldwin's affairs to see—an 8-inch-thick computer printout that traced the deposits and disbursements of nearly \$22 million known to have passed through the firm from late 1978 through July, 1983.

"When Tom Hayes goes through the records of Bishop, Baldwin and can account for almost all of the money, the CIA connection seems much, much, much flimsier," said Wally Zimmermann, news director for KHON. "There were no big blocks of money either coming in unaccounted for or going out unaccounted for."

Prior to the ABC broadcasts, judge Pence called Bishop, Baldwin a classic Ponzi scheme—early investors were paid off with money put into the firm by newer investors. According to one local news report, some investors were hired as consultants and paid finders fees for bringing in new investors.

One of those consultants was former Napa County, Calif., attorney, Robert W. Jinks, whom ABC quoted on the air claiming to be a CIA agent.

Jinks' only apparent claim to a CIA association is that Rewald swore him into the agency. Jinks has a \$5-million lawsuit against the CIA and a long and curious association with Rewald.

As trustee of a \$3.7-million estate, Jinks signed the lease agreement installing Rewald in his Honolulu office. One month before ABC's broadcast, a federal judge removed Jinks from his position with the estate for negligence and misconduct. The judge found that Jinks had delegated discretion over estate investments to Rewald. The judge also found that Jinks co-mingled estate funds with his own, used the estate to invest in his own businesses and transferred estate money to his personal accounts.

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Nine days before the ABC broadcasts, the Napa Register newspaper reported that Jinks resigned from 17 Napa limited partnerships amid "a series of federal and state lawsuits challenging his professional conduct." Local Napa residents were said to have invested about \$1 million in Jinks' various business deals—including nearly \$600,000 in Bishop, Baldwin during a nine-month period when Jinks received \$47,000 from the firm.

The bankruptcy court found no major income-producing Bishop, Baldwin investments and determined that investors' funds were squandered at an alarming rate. At one point, according to bankruptcy records, Rewald's personal spending exceeded \$250,000 a month.

It was all part of his CIA cover, Rewald asserted.

Rewald lived at the elegant apex of the pyramid. From his headquarters in a Honolulu skyscraper, he jetted around the world. His home was filled with fine art. He kept a fleet of automobiles and entertained women, a sultan, generals, admirals and millionaires at his elegant Oahu polo club.

Rewald described his life in a confidential affidavit first filed in a Securities and Exchange Commission inquiry into his financial activities. At Rewald's request and with the concurrence of the CIA, Judge Pence sealed the affidavit for reasons of national security.

Copies, however, have been obtained by The Times and other news organizations.

In his affidavit, Rewald claims that he led his lavish life style and hobnobbed with the rich and powerful for the CIA.

"In carrying out my agency charge to cultivate these individuals on a social and business level," Rewald swore, "I was required to live in a style commensurate and compatible with the social and economic status which these people enjoyed.

"I did so largely with the use of agency funds. My own salary from Bishop, Baldwin, standing alone (\$20,000 per month), gave me, after withholding and other deductions, approximately \$10,000 per month—ample income, many would say, but nowhere nearly sufficient to allow me to consort with millionaires and people of wealth as one of their social and economic peers."

The financial facts of Rewald's life were laid out in bankruptcy records: \$656,000 for personal residences, \$354,000 for automobiles, \$226,000 for household help, \$540,000 for polo and horses and the like. Bankruptcy records indicated that Rewald's personal expenses reached about \$5 million during his five-year reign at Bishop, Baldwin.

Former CIA officials and others ridiculed Rewald's assertion that his life style was part of his agency cover.

That part of it is ridiculous," said Richard L. Helms, director of central intelligence during the Nixon Administration. "As far as Mr. Rewald's concerned, you can put a line right through his name. I don't know where he got that kind of money, but it's a cinch that he didn't get it from the United States government."

Clearly, however, Rewald received some support from the government. Included in bankruptcy administrator Hayes' computer printout are two pages labeled "CIA Activity." They show that at least two local CIA station chiefs—one of whom later went to work for Rewald—paid \$2,711.10 to Bishop, Baldwin for stationery, telephone and Telex charges from early 1979 to late 1982.

Local reporters and investigators established those links long before ABC came onto the scene. They had evidence that the CIA temporarily stalled an Internal Revenue Service investigation of Rewald's personal finances, an investigation that he represented to at least one CIA agent as an inquiry into agency activities.

Local reporters also established that as many as 14 CIA agents invested more than a total of \$300,000 in personal funds in the company. But local reporters and investigators could not trace the Rewald-CIA links nearly as far as ABC claimed they extended.

A year before ABC aired its reports, Sen. Daniel Inouye (D-Hawaii), while a member of the Senate Intelligence Committee, commissioned a staff inquiry into the Bishop, Baldwin affair. That investigation concurred with the findings of Judge Pence and bankruptcy administrator Hayes.

Staff investigators for the oversight and investigations subcommittee of the House Energy and Commerce Committee, who have been looking into the Bishop, Baldwin matter for more than a year, have found little evidence suggesting that Rewald's CIA connection was as deep as ABC alleged.

Subcommittee investigator Peter Stockton's inquiry has included reviewing secret cables between the Honolulu CIA office and agency headquarters. Stockton said those cables show that Rewald "just appeared on the scene one day" in 1977 and offered his service to the local CIA station. The cables also show, Stockton said, that after Rewald began his association with the CIA he managed to persuade the agency not to conduct a background check on him.

Despite the magnitude of Rewald's alleged scam and his allegations of CIA involvement,

the major national media at first ignored what Hawaii residents were calling their biggest story since statehood. Only Money magazine looked in on the story, characterizing Bishop, Baldwin a scam and Rewald "a

blame-puffer and small-time cheat," which Rewald claims libels him (see box, above).

Pulitzer Prize-winning investigative reporter Seymour Hersh and "60 Minutes" producer Ira Rosen looked in on the Rewald story and decided not to do reports based on his claims, even after reviewing the documents others later used for substantiation.

Said producer Rosen: "I have seen documents that they (Rewald and his associates) have represented to be the things that will bring someone over to believe their side of it. They don't. They're not convincing."

The documents supporting Rewald and his associates apparently did persuade a man known in Washington as a "news broker."

That's the term that William Lord, executive producer of ABC's "World News Tonight," used to describe John Kelly, frequent CIA critic and editor of Counterspy, a magazine that regularly attempts to expose CIA activities.

Kelly's role turned out to be critical in getting the Rewald story to mainland reporters and in persuading some in the national press that Rewald was the covert CIA agent that he claimed to be.

"The story was all over Hawaii, including AP and UPI, but nothing was reaching the mainland, absolutely nothing," Kelly said in an interview in his Washington apartment. "Rewald and company were concerned about the lack of coverage because pretty much he had decided his only defense was the CIA defense. And if you can't get any publicity, you're nowhere on that, you know."

Kelly, armed with nearly 300 pages of documents that he said were supplied to him by Rewald's brother-in-law, became a major source on the story for the Wall Street Journal, the BBC, CBS and ABC. He was interviewed on the air in March, 1984, by the BBC and in May, 1984, by the "CBS Evening News."

ABC did not put Kelly on the air but hired him as a "consultant/reporter" on the story. Kelly wrote a Counterspy cover story,

featuring a picture of Rewald with Bishop, Baldwin consultant and former Honolulu CIA station chief John C. (Jack) Kindschi. The cover lines read: "CIA FRONT: Caught Red-Handed in Hawaii."

Kelly first contacted David Taylor, a BBC Washington-based producer, in the fall of 1983. In December, Taylor sent Kelly to Hawaii at the BBC's expense.

Two months later, Kelly returned to the mainland convinced that Bishop, Baldwin was just what Rewald claimed it to be. He was impressed by Larry Price's series of

Continued

news reports, especially an interview with Bishop, Baldwin operations manager Sue E. Wilson. She said that it was "common knowledge" among the staff that the company frequently performed duties for the CIA.

"The significant part—what impressed me right away—was (that) for the first time on American television, to my knowledge, somebody went on camera and said, 'Yes, I worked for the CIA,'" Kelly said.

Like ABC's broadcasts, the BBC's half-hour documentary presented Rewald's claims as substantiated. Kelly told the BBC interviewer: "This is a rare instance of extensive documentation of a covert CIA operation. In my research, I've never come across such a large amount of documentation."

The BBC claimed it had proof that Rewald stole for the CIA the plans for a Japanese high-speed train, spied on President Ferdinand Marcos of the Philippines and secretly sold arms to Taiwan.

The BBC version used a great deal of tape footage supplied to it by Honolulu station KHON. News Director Wally Zimmermann made a deal to air the BBC documentary in Hawaii in exchange for providing the videotape. After seeing the documentary, Zimmermann didn't run the program.

"I didn't think he had enough facts to back up the allegations he was making," Zimmermann said. "There was nothing there. There were no facts there that we didn't know about, that we hadn't checked through and that we had not come to either stonewall ends or dead ends. There was nothing new there."

Kelly also provided press clippings and other documents to Wall Street Journal reporter Jonathan Kwitny, who said he had used material from Kelly in the past. Kwitny's front-page story ran in April, 1984.

"He (Kelly) may well have been the first lead I got," Kwitny said in an interview in his New York office. "Certainly he was over there when I was. We ate and drank and talked together." While acknowledging that Kelly was a background source for the story, Kwitny said that nothing in the story was attributed to Kelly: "I mean he's not a source in the sense that I attached something that's in the paper to him as the source of it."

Kelly and BBC footage appeared again in the CBS version of the story. Kelly was not paid to appear on CBS, however, and that network took a much different tack from the BBC before it and ABC after it.

CBS distanced itself from Rewald's claims. In its two-part May, 1984, report, CBS used Kelly's documents without claiming to have corroborated their contents.

CBS quoted Kelly saying that Bishop, Baldwin was "covering pretty much the full

spectrum of CIA operations." Unlike ABC, CBS also quoted persons who believed that Rewald had little to do with the CIA.

"Though the CIA cited national security as the reason for secrecy, a revealing look is provided by some of those documents obtained by CBS News," correspondent Barry Petersen said as the images of Rewald's shattered life appeared for the first time on TV screens across the country.

"They (the documents) paint a widespread picture of apparent CIA involvement, including claims that Rewald was a covert CIA agent for years, that he was ordered by the CIA to set up Bishop, Baldwin, that from these luxurious offices CIA agents claiming to be Bishop, Baldwin employees traveled worldwide, negotiated a major arms deal with Taiwan—tanks, planes and other military equipment—a deal the U.S. government couldn't make openly without damaging U.S. relations with China."

Five months later, ABC would repeat many of those same claims with only a slight but significant twist, one phrase really. Instead of "Ronald Rewald claims," the new version would say "ABC News has learned." □

EXPERTS PRAISE, CRITICIZE ABC

Leading journalism experts interviewed by The Times praised ABC for its courage to attempt such a significant and potentially important story. When asked about The Times' findings, however, they said that ABC had failed to verify its charges.

"If ABC wants to take that risk," said Columbia University journalism professor Melvin Mencher, "they should live with the consequences. The consequences are, 'Prove it.' They haven't made their case."

"The ABC piece summed up almost quintessentially what's wrong with investigative news these days," said Ned Schurnam, a New York-based media critic and producer of public television's

former press-watchdog series "Inside Story." "They were relying on first-person interviews. I didn't see them supported by any real serious documentation. . . . There wasn't anything beyond that patina—that surface of personal identification—that really supported this story, other than Rewald, his friends, the injured parties, those people who stood to benefit from this story surfacing."

"This sounds very bad," said Richard Salant, former president of CBS News and of the disbanded National News Council, which regularly reviewed public complaints against the press. But, Salant emphasized, "No matter how bad it is, this is not a matter that should be before a government agency." □ —D.C.

Continued

THE LAWSUITS ABOUND

The Ronald Rewald case is actually more than a dozen criminal and civil suits filed in the months since the August, 1983, collapse of the Bishop, Baldwin, Rewald, Dillingham & Wong investment firm. In addition to his 100-count federal criminal indictment, Rewald faces Hawaii state "theft by deception" charges and a number of civil actions arising out of the Bishop, Baldwin bankruptcy.

A strict gag order bars Rewald from talking with reporters about the CIA or his criminal case.

Rewald, 42, who now lives in a rented home in the elegant Hancock Park district of Los Angeles, has brought his own legal actions totaling in the hundreds of millions of dollars. All of Rewald's suits are pending.

□ In February, 1984, Rewald filed a \$671-million claim in federal court

against the CIA, charging that the intelligence agency set up and controlled Rewald's firm.

□ In March, 1984, Rewald sued Bishop, Baldwin bankruptcy administrator Thomas E. Hayes in Hawaii state court for \$150 million. The suit alleges that Hayes defamed Rewald, invaded his privacy, held him up to false light and negligently and intentionally inflicted serious mental distress.

□ Time Inc., which owns Money magazine, faces a \$10-million suit that Rewald filed in March, 1984. Rewald claims that Money libeled and slandered him in a December, 1983, article.

□ On April 15, 1985 in federal court in Honolulu, Rewald filed a \$12-million defamation action against Honolulu TV station KHON. Named in the suit are reporters Barbara Tanabe and Richard Borreca as well as local anchorman Joe Moore. □ —D.C.

On ABC's "World News Tonight" Correspondent Gary Shepard backed up Rewald's claim that he was a covert CIA operative:

'ABC News has learned that the agency was heavily entrenched in (Rewald's) Bishop, Baldwin, running a number of foreign and domestic intelligence operations, one of which violated an international agreement, others in direct violation of U.S. law.'



Gary Shepard of ABC News reported that Rewald's company was a CIA front. William Lord, exec producer of "World News Tonight," cited "solid" information.

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CIA Director William J. Casey insists that the intelligence agency has no serious desire to see ABC's licenses revoked:

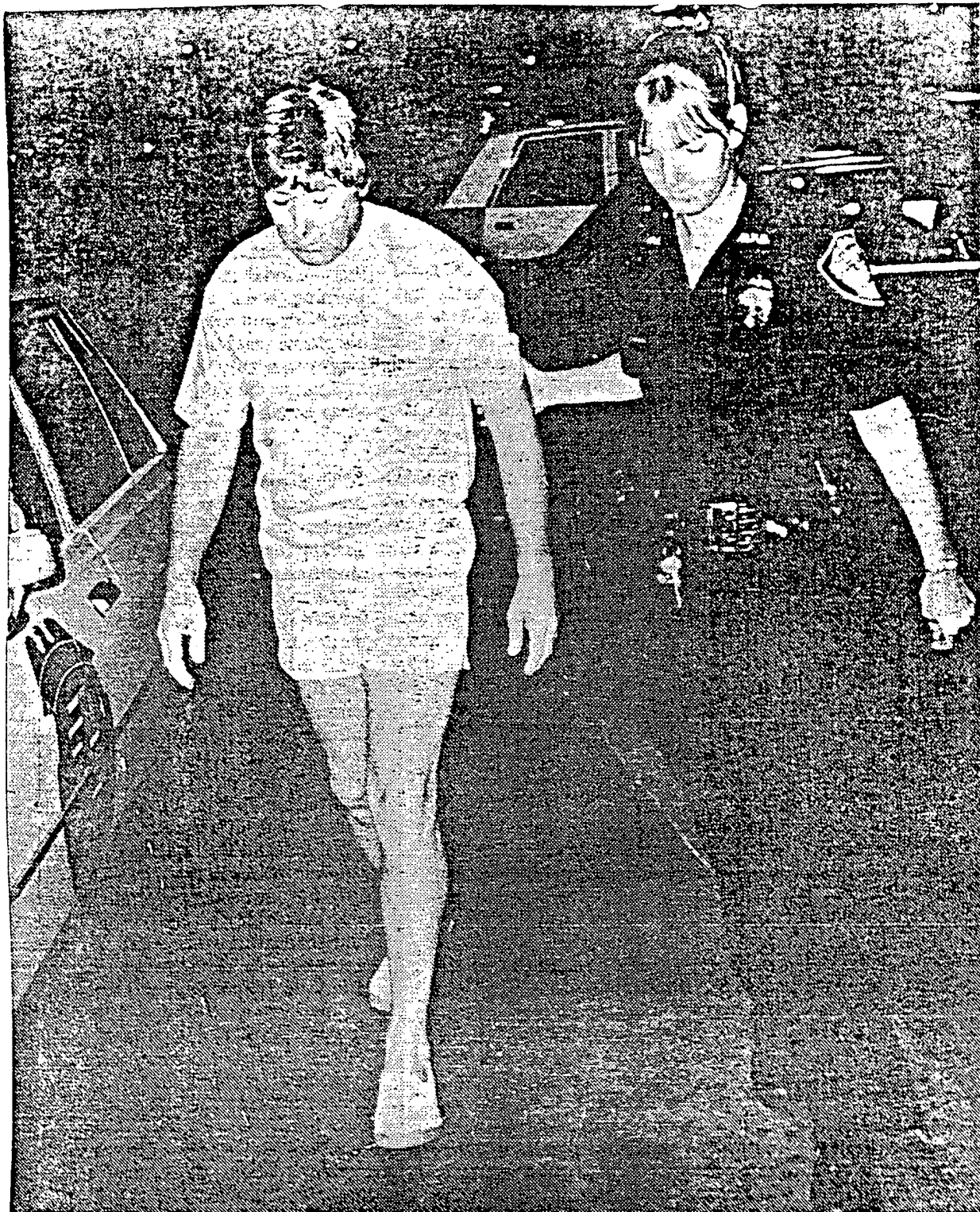
'We sought a procedure which could . . . lead to standards which would permanently protect the network, the public and the CIA against recurrences of this rush to publish without decent proof or adequate checking.'



CIA General Counsel Stanley Sporkin:

'This would have been the biggest story ever found against the agency — a plot to murder an American citizen. How does it happen that they can put on artificial news?'

Continued



In 1983, Ronald Rewald was arrested by the Honolulu Police Department, left. Today, he faces 100 federal criminal charges of fraud, tax evasion and perjury as a result of the collapse of his investment firm, Bishop, Baldwin, Rewald, Dillingham & Wong. ABC News later reported that Rewald was a CIA agent and that his company was controlled by the CIA, which plotted to murder Rewald and threatened to kill an investor in Rewald's firm...

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*'We gotta take him out . . .
you know, kill him (Rewald).'*

Scott Barnes, quoted above in ABC's broadcast, claims that he was ordered to kill Ronald Rewald, left. The CIA denies any association with Barnes. Two months later, ABC withdrew the murder allegation.

*Thomas Hayes, the Bishop,
Baldwin bankruptcy administrator:*

*"The involvement that I've proven
so far is still minimal, although
somewhat more than the CIA
publicly admits."*



Honolulu Advertiser



Associated Press

*Stansfield Turner, former
director of central intelligence:*

*"That's just utterly insane. I can't
imagine why ABC believed that . . .
I think the agency had great cause
to be very upset with ABC."*

Continued

ABC News, quoting Bishop, Baldwin investor Ted Frigard (right): 'And then, as we got up to leave, the man said, "They will shoot you through the heart and report that you had a heart attack.'

Frigard now says that "the man" who warned him was a personal friend — with no apparent connection to the Ronald Rewald affair or to the CIA.

